Healthcare

MARKET WEIGHT
(Downgraded)

Downgrade To Market Weight Following Impressive Run

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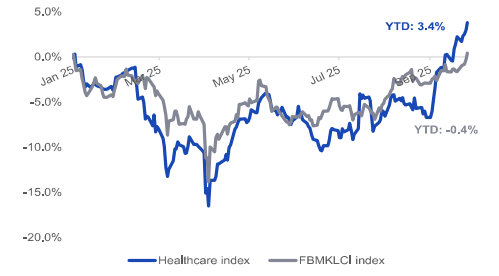
Highlights

- The valuation for the hospital segment is now at its five-year mean following the recent impressive run.
- Potential for further near-term upside but no longer compelling.
- Downgrade the sector recommendation to MARKET WEIGHT from OVERWEIGHT. We like Alpha IVF as the top pick for the sector.

Analysis

- **Budget 2026 should not see major surprises with DRG set.** We do not expect Budget 2026 to deliver major surprises for the healthcare sector. The key issue remains medical inflation, which the government is addressing through the rollout of the Diagnosis-Related Group (DRG) system – a fixed-fee, diagnosis-based hospital payment model – by 2027. Although implementation is still some way off, policy clarity has already been established. The longer timeline reflects the need to build the system, develop a comprehensive database, integrate processes, and conduct pilot testing.
- **Increased budget allocations, in line with previous years.** Beyond the DRG rollout, healthcare budget allocation could see another double-digit yoy increase for the Ministry of Health, consistent with recent trends. Previous allocations accounted for 10.8% of the total budget (Budget 2024: 10.5%). Nevertheless, Malaysia's healthcare spending is expected to remain below the World Health Organisation's recommended 5% of GDP, likely closer to around 3% of Malaysia's projected 2026 GDP.
- **After seven years, IHH finally cleared to proceed with Fortis offer.** On 3 October after market close, IHH announced that it had received approval from India's stock exchange regulator to proceed with its long-delayed mandatory open offers for a 26% stake each in Fortis Healthcare and Malar Hospitals – nearly seven years after first proposed. The delay stemmed from a prolonged Supreme Court stay linked to Daiichi Sankyo's arbitration, which froze regulatory clearance. The original offer prices were set at Rs170 for Fortis Healthcare and Rs17.6 for Malar Hospitals. To move forward, IHH will need to revise these terms, as Fortis Healthcare and Malar Hospitals last closed at Rs980 and Rs65.2 respectively. A transaction is likely to be PE-dilutive for IHH, given Fortis Healthcare's current forward PE of 67x.

Healthcare Index VS FBMKLCI Index



Source: Bloomberg, UOB Kay Hian
Healthcare Index is an equal weighted index consisting of IHH Healthcare, KPJ Healthcare, Duopharma Biotech, Pharmaniaga, Apex Healthcare, Kotra Industries, Optimax, Cengild Medical, DC Healthcare, YSP Southeast Asia and TMC Life Sciences

Sector Picks

Company	Rec	Share Price (RM)	Target Price (RM)
Alpha IVF	BUY	0.34	0.42
Duopharma	BUY	1.28	1.67
KPJ	BUY	2.77	3.10
IHH	HOLD	8.13	8.05

Source: UOB Kay Hian

Peer Comparison

Name	Ticker	Rec	Crncy	Price @ 3 Oct 25 (Lcl crncy)	Target Price (Lcl crncy)	Mkt Cap (US$m)	PE (x) 2025F	PE (x) 2026F	EV/EBITDA (x) 2025F	EV/EBITDA (x) 2026F	Div Yield (%) 2026F	P/B (x) 2026F
IHH Healthcare	IHH MK	HOLD	RM	8.13	8.05	16677	39.4	34.5	15.9	13.6	1.0	2.2
BKK. Dusit	BDMS TB	BUY	THB	20.70	32.00	9948	19.6	18.3	12.2	11.5	3.8	3.1
Bumrungrad Hosp	BH TB	HOLD	THB	135.00	185.00	4266	18.9	18.1	13.7	13.2	2.9	4.4
KPJ Healthcare	KPJ MK	BUY	RM	2.77	3.10	2894	34.2	30.5	15.7	14.7	2.2	4.8
Raffles Medical	RFMD SP	BUY	SGD	0.96	1.25	1413	26.3	25.0	12.0	11.2	2.4	1.7
BKK. Chain Hosp.	BCH TB	BUY	THB	12.80	20.00	984	20.9	19.0	10.5	9.7	3.0	2.3
Regional hospitals avg						**6030**	**26.3**	**24.0**	**13.3**	**12.4**	**2.5**	**3.0**
APEX Healthcare	APEX MK	NR	RM	2.19	n.a.	410	21.7	19.4	14.1	13.7	3.1	2.0
Duopharma	DBB MK	BUY	RM	1.28	1.67	297	12.9	11.7	7.3	6.8	4.3	1.5
Alpha IVF	ALPHA MK	BUY	RM	0.34	0.42	381	22.6	17.3	13.8	10.3	4.0	6.5
Malaysia healthcare avg						**363**	**20.2**	**17.7**	**12.7**	**11.3**	**3.0**	**1.8**

Source: Bloomberg, UOB Kay Hian

- **IHH's share price reaches an all-time high.** IHH's share price has spiked by 17.6% (and a 14.1% outperformance vs the FBMKLCI Index) over the past month to an all-time high of RM8.13. Valuations appear palatable at 37.7x, slightly above its five-year PE mean of 36.9x. The rally appears largely flow-driven rather than tied to new corporate developments, as no significant developments have been made. We believe the scarcity of undervalued FBMKLCI component stocks similar to IHH, coupled with expectations for Sunway Healthcare's eventual IPO at richer valuations, has spurred incremental institutional interest. While we recognise there may be potential for further near-term upside with IHH possibly being chased for benchmarking purposes, we downgrade our recommendation to HOLD as the share price has reached our target valuation.
- **Sunway Healthcare IPO.** Sunway Healthcare is pursuing an IPO targeted for completion by 1Q26. The group is currently in a ramp-up phase with five operational hospitals and three pipeline hospitals under development. Its total bed capacity is expected to grow from the current 1,818 beds to 3,400 beds by 2032, representing a 7-year CAGR of 9.4%.
- **Basis for premium valuations?** Notably, newer hospitals such as Sunway Medical Centre Velocity and Sunway Medical Centre Penang achieved EBITDA breakeven well ahead of the industry average – within 12 months and 3 months, respectively. Of the five operating hospitals, Sunway Medical Centre Damansara and Sunway Medical Centre Ipoh are still in the EBITDA loss-making stage as they continue ramping up. As the group is still scaling, Sunway Healthcare's EBITDA earnings could grow exponentially compared with established operators like IHH Healthcare and KPJ Healthcare. Its IPO could therefore justify an EV/EBITDA multiple premium above the Malaysian hospital transaction average of 18.7x.

Hospital Transactions In Malaysia

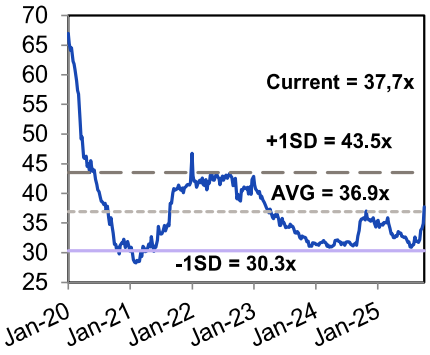
Hospital / Transaction	Completion Date	Implied EV/EBITDA (x)	Implied EV/bed (RMm)
Prince Court Medical Centre (100%)	Sep-20	21.9	3.7
IHH (16%)	Mar-19	23.4	6.1
IHH (6%)	Nov-18	20.2	5.2
Amanjaya Specialist Centre (100%)	Oct-19	10.6	1.0
Island Hospital (100%)	Jun-15	18.2	3.6
TMC Life Sciences (77%)	Sep-14	24.1	2.0
Timberland (100%)	Aug-23	12.0	3.0
Island Hospital (100%)*	Sep-25	19.2	4.8
Average		**18.7**	**3.7**

**Excludes the value of vacant land*
Source: Respective Companies

Valuation/Recommendation

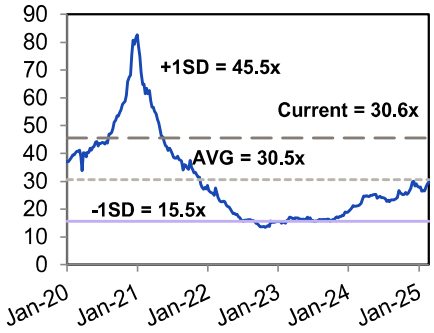
- **Downgrade to MARKET WEIGHT as valuations are no longer compelling** We downgrade the healthcare sector to MARKET WEIGHT as valuations have become less attractive after the recent impressive run. IHH Healthcare and KPJ Healthcare are in the early stages of their brownfield expansion cycles, presenting structural positives for margins amid a more known policy environment. However, with the hospital segment projected to deliver 13.9% earnings growth in 2026, and valuations now trading around their 5-year mean PE following recent rallies, the risk-reward profile appears less compelling.
- In contrast, Alpha IVF stands out as an appealing opportunity given its multiple regional expansion initiatives. While improved risk-on sentiment and strong flows – particularly into large-cap names like IHH – have lifted sector valuations, the defensive nature of healthcare suggests limited further upside. This backdrop supports our MARKET WEIGHT stance, with Alpha IVF as our top pick for the sector.

IHH's 5-year PE Band



Source: Bloomberg, UOB Kay Hian

KPJ's 5-year PE Band



Source: Bloomberg, UOB Kay Hian

Alpha IVF's Status and Pipeline of Facilities

Facilities	Status
Alpha IVF KL	In Operation
Genesis IVF PG	In Operation
Alpha IVF SG	In Operation
Alhaya IVF KL	In Operation
Sales Rep Office in China No 1 (Shanghai)	In Operation
Sales Rep Office in China No 2 (Guangzhou)	In Operation
Satellite Clinics in Indonesia No 1 (PIK Jakarta)	Operational on 5th May 2025
Satellite Clinics in Indonesia No 2 (Surabaya)	Operational on 23rd July 2025
IVF Centre in Philippines No 1 (Manila)	Target: 2QFY26
IVF Centre in Philippines No 1 (Manila)	Target: 4QFY26
IVF Centre in Malaysia No 1 (Sabah)	Target: 2QFY26
IVF Centre in Malaysia No 1 (Johor)	Target: 4QFY26
Satellite Clinics in Indonesia No 3 (Medan)	Target: 2QFY26
Satellite Clinics in Indonesia No 4	Target: 4QFY26
Total Facilities in operation	**8**
Total New Facilities due in FY26	**6**

Source: Alpha IVF

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